

## SCHEDULE CCR — CONSOLIDATED CAPITAL REQUIREMENT

*Throughout these instructions, **you** and **your** refers to the reporting savings association and its consolidated subsidiaries; **we** and **our** refers to the Office of Thrift Supervision.*

### GENERAL INSTRUCTIONS

OTS-regulated savings associations must comply with two overlapping sets of regulatory capital standards listed below:

#### **12 CFR § 567, Capital (FIRREA)**

1. Tangible capital: The minimum ratio, as a percent of tangible assets, is 1.5 percent.
2. Core or leverage capital: The minimum ratio, as a percent of adjusted total assets, is 3 percent for savings associations assigned a composite CAMELS rating of "1", and 4 percent for all other savings associations.
3. Risk-based capital: The minimum ratio, as a percent of risk-weighted assets, is 8 percent.

#### **12 CFR § 565, Prompt Corrective Action (FDICIA)**

4. Tangible equity: Savings associations with tangible equity equal to or less than 2 percent of tangible assets are critically undercapitalized.
5. Tier 1 or leverage capital: Savings associations are adequately capitalized or well capitalized if the minimum ratios, as a percent of adjusted total assets, are 4 percent or 5 percent, respectively.

**Note:** § 567 contains an exception to these standards.

6. Tier 1 risk-based capital: Savings associations are adequately capitalized or well capitalized if the minimum ratios, as a percent of risk-weighted assets, are 4 percent or 6 percent, respectively.
7. Total risk-based capital: Savings associations are adequately capitalized or well capitalized if the minimum ratios, as a percent of risk-weighted assets, are 8 percent or 10 percent, respectively.

**Note:** The following paragraph refers to numbers 1 through 7 above.

Schedule CCR - Consolidated Capital Requirement uses the following conventions:

- Tangible capital (FIRREA) [See 1 above.]  
Schedule CCR does not include this measure because the minimum ratio is no longer considered a meaningful limitation for most savings associations.
- Tangible equity (FDICIA) [See 4 above.]  
CCR840 reports the calculated tangible equity ratio.
- Core or leverage capital (FIRREA) [See 2 above.] and Tier 1 or leverage capital (FDICIA) [See 5 above.]  
Schedule CCR treats these two measurements as one and refers to them as Tier 1 (core) capital. CCR810 reports the actual ratio. An adequately capitalized savings association must have a minimum Tier 1(core) capital ratio of 4 percent. CCR20 reports the calculated amount.
- Tier 1 risk-based capital (FDICIA) [See 6 above.]  
CR830 reports the calculated ratio.
- Risk-based capital (FIRREA) [See 3 above.] and total risk-based capital (FDICIA) [See 7 above.]  
Schedule CCR treats these two measurements as one and refers to them as total risk-based capital. CCR820 reports the calculated ratio. An adequately capitalized savings association must have a minimum total risk-based capital ratio of 8 percent. CCR39 reports the calculated amount.

Generally, report all data on a consolidated basis with all subsidiaries that you would consolidate under GAAP, except as noted in these instructions.

**Subsidiary:** The term subsidiary means any corporation, partnership, business trust, joint venture, association, or similar organization where you, directly or indirectly, hold an ownership interest and consolidate the assets with yours for purposes of reporting under GAAP. Generally these are majority-owned subsidiaries.

This definition does not include ownership interests taken in satisfaction of debts previously contracted, provided you have not held the interest for more than five years, or a longer period if approved by OTS.

Generally, treat investments in entities not constituting subsidiaries under this definition as equity investments for capital purposes.

The following shows the regulatory capital treatment of debt and equity investments in subsidiaries and other subordinated organizations:

- Consolidate includable subsidiaries in accordance with GAAP.
- Deduct debt and equity investments in nonincludable subsidiaries in full (100 percent) from assets and capital. All previously applicable transition provisions have expired.
- Deduct nonincludable equity investments in subordinate organizations constituting subsidiaries in full (100 percent) in computing total capital for the total risk-based capital standard.

**Nonincludable subsidiaries:** Generally include subsidiaries engaged as principal in activities not permissible for a national bank. The instructions for CCR105 define nonincludable subsidiaries.

**Note:** Do not consolidate subsidiaries with investments fully covered by the FDIC. Include all FDIC-covered assets in the zero percent risk-weight category, and report them on CCR409, Notes and Obligations of FDIC, Including Covered Assets.

These instructions deal with investments in **mutual funds** and certain asset pools based on the characteristics of the assets in the fund. Where the mutual fund holds various assets that have different risk weights under the capital requirement, risk weight the entire ownership interest in the mutual fund based on the category of the asset with the highest capital requirement – highest risk weight or subject to deduction. On a case-by-case basis, OTS may allow you to assign the portfolio proportionately to the various risk-weight categories based on the proportion of the risk-weight categories represented in the mutual fund. See 12 CFR § 567.6(a)(1)(vi)(C).

**Lower-tier subsidiary:** Subsidiaries where you do not directly hold an ownership interest. Rather, your service corporation or operating subsidiary directly or indirectly holds the ownership interest.

## TIER 1 (CORE) CAPITAL REQUIREMENT

### CALCULATION OF CORE (TIER 1) CAPITAL

#### CCR100: Equity Capital

The EFS software generates this line from SC80, Total Equity Capital. This is GAAP equity capital.

**Explanatory Note:**

Schedule CCR adjusts Equity Capital, CCR100 in calculating Tier 1 (core) capital according to the OTS capital rule. For example, the OTS capital rule does not include cumulative perpetual preferred stock in Tier 1 (core) capital. Furthermore, the OTS capital rule requires you to deduct debt and equity investments in nonincludable subsidiaries and certain other assets from total assets and equity capital in computing Tier 1 (core) capital. In addition, OTS's capital rule reverses the adjustment to GAAP equity for unrealized gains and losses on available-for-sale (AFS) debt securities included in SC860 in computing Tier 1 (core) capital. However, you report marketable **equity** securities at the lower of cost or market for Tier 1 (core) capital purposes.

#### Deduct:

#### CCR105: Investments in and Advances to Nonincludable Subsidiaries

Reduce Tier 1 (core) capital by your investment in, advances to, and guaranteed obligations of certain nonincludable subsidiaries. The general instructions to Schedule CCR define subsidiary.

In consolidation, you eliminate the investment and intercompany loan accounts of subsidiaries on Schedule SC. Therefore, you must obtain the amount of the investment and advances from your books before consolidation. Calculate the investment using the equity method as prescribed by GAAP plus any loans, advances, guaranteed obligations, or other extensions of credit, whether secured or unsecured. Use negative investments to offset loans, guaranteed obligations, or advances to the same subsidiary, but do not reduce this line below zero. If you have a nonincludable subsidiary and the result on this line rounds to zero or is a negative amount, report a one to indicate that you have reported your nonincludable subsidiary.

**Note:** Report investments in subsidiaries and equity investments where the FDIC fully covers the investments on CCR409, zero percent risk weight: FDIC Covered Assets. This rule applies to your investment regardless of the business activity of such entity.

### Nonincludable Subsidiaries

Section 5(f) of HOLA [12 USC 1464(t)(5)(A)] defines nonincludable subsidiaries as subsidiaries of a savings association that engage in activities impermissible for a national bank with the following exceptions:

1. Subsidiaries only engaged in impermissible activities as an agent for its customers where the subsidiary has no risk of loss.
2. Subsidiaries engaged solely in mortgage banking activities.
3. Insured depository institutions acquired as subsidiaries before May 1, 1989.
4. Subsidiaries of federal savings associations that existed on August 8, 1989, and were chartered before October 15, 1982, as a savings bank or cooperative bank under state law.
5. Subsidiaries of federal savings associations that existed on August 8, 1989, that acquired their principal assets from a savings association chartered before October 15, 1982, as a savings bank or cooperative bank under state law.

Generally, a subsidiary of a savings association is nonincludable if any of its unconsolidated assets are impermissible for a national bank. If any **lower-tier subsidiary** engages in impermissible activities or invests in an entity that engages in impermissible activities, but the first-tier subsidiary owned by the parent savings association does not directly engage in impermissible activities, the first-tier subsidiary is an **includable** subsidiary. Deduct only subsidiary's investment in the nonincludable lower-tier subsidiary in computing the capital of the upper-tier subsidiary on an unconsolidated basis and in computing your consolidated capital. Deduct from total capital, equity investments of subsidiaries in lower-tier subordinate organizations that are not considered subsidiaries, if those equity investments are not permissible for national banks.

### Fully deduct all nonincludable subsidiaries from capital.

You should report investments in and advances to nonincludable subsidiaries net of all general valuation allowances, specific valuation allowances, and charge-offs, as they have already reduced equity capital.

## CCR115: Goodwill and Certain Other Intangible Assets

For most savings associations, this line will equal SC660. However, you may change this amount in certain cases. For purposes of regulatory capital only, you may reduce the amount of core deposit premiums and certain other intangible assets that you acquired in a nontaxable business combination by any corresponding deferred tax liabilities.

Report this as a positive amount. The EFS software will deduct this line from equity capital in calculating Tier 1 (core) capital.

### Include:

1. Core deposit intangible assets, CDIs.
2. Purchased credit card relationships, PCCRs.

### Do not include:

1. Servicing assets.

2. Certain nonsecurity financial instruments accounted for under FASB Statement No. 125.
3. Net deferred tax assets.

### **CCR133: Disallowed Servicing Assets, Disallowed Deferred Tax Assets, Disallowed Residual Interests, and Other Disallowed Assets**

Report this as a positive amount. The EFS software will deduct this line from equity capital in calculating Tier 1 (core) capital.

#### **Disallowed Servicing Assets**

You may include servicing assets reported on SC642 and SC644 in regulatory capital, subject to **both** of the following limitations:

1. For mortgage and nonmortgage servicing assets, and PCCRs, combined — include in capital the lesser of:
  - a. 100 percent of Tier 1 (core) capital.
  - b. 90 percent of fair value.
  - c. 100 percent of reported amount.
2. For nonmortgage servicing assets and PCCRs, as a separate sub-limit — include in capital the lesser of the following:
  - a. 25 percent of Tier 1 (core) capital.
  - b. 90 percent of fair value.
  - c. 100 percent of reported amount.

Accordingly, on CCR133, include the amount of servicing assets reported on SC642 and SC644 (that are not in a nonincludable subsidiary) and PCCRs included on SC660 that exceed the above limitations.

For purposes of the 25 percent and 100 percent of Tier 1 (core) capital limitations above, base the deduction on a Tier 1 (core) capital subtotal before the deduction. In addition, in computing the deduction for the 25 percent and 100 percent limitations, you may reduce the amount of servicing assets by any corresponding deferred tax liability.

#### **Disallowed Deferred Tax Assets**

If regulatory capital includes disallowed deferred tax assets, include the amount of the disallowed deferred tax assets on this line. To the extent that realizing deferred tax assets depends on your future taxable income (exclusive of reversing temporary differences and carryforwards), or your tax planning strategies, such deferred tax assets are limited for regulatory capital purposes to the lesser of the following:

1. The amount that you can realize within one year.
2. 10 percent of Tier 1 (core) capital.

Accordingly, disallowed deferred tax assets is that amount includable in assets under GAAP, but **not** includable in regulatory capital pursuant to OTS policy. The deferred tax asset subject to the limitation is the net deferred tax asset or liability included on Schedule SC, adjusted for the deferred tax asset or liability added to or subtracted from total assets related to the following:

1. Accumulated gains and losses on certain AFS securities and cash flow hedges on CCR280.
2. Goodwill and other intangible assets on CCR265 and CCR285.

3. Servicing assets on CCR270.

**Note:** You can generally realize deferred tax assets without limitation from the following sources:

1. Taxes paid in prior carry-back years.
2. Future reversals of existing taxable temporary differences.

For purposes of the 10 percent of Tier 1 (core) capital limitation above, base the deduction on a Tier 1 (Core) capital subtotal before the deduction.

### **Disallowed Residual Interests**

Include on this line that portion of credit-enhancing interest-only strips (as defined) reported on SI402 that must be deducted in computing Tier 1 capital, pursuant to 12 CFR Part 567. With certain exceptions provided for in the regulation, you must deduct from equity capital the amount of any credit-enhancing interest-only strips that exceeds 25% of Tier 1 capital before the deduction. In computing the deduction, you may reduce the amount by any corresponding deferred tax liability.

### **CCR134: Other**

Report other items required to be deducted from Tier 1 Capital not included in CCR105 through CCR133.

### **Add:**

### **CCR180: Accumulated Losses (Gains) on Certain Available-For-Sale Securities and Cash Flow Hedges, Net of Taxes**

**Report on this line:**

#### **1. Accumulated Unrealized Gains and Losses on Certain Available-for-Sale Securities**

Equity capital on SC80 includes a separate component for accumulated, unrealized gains and losses, net of income taxes, on AFS securities. See SC860, Unrealized Gains (Losses) on Available-for-sale Securities. However, you cannot include most of that separate component of equity capital in regulatory capital, as specified below.

For regulatory capital purposes on Schedule CCR, but not for reporting purposes on Schedule SC:

- Report aggregate AFS **debt** securities at amortized cost, not at fair value.
- Report aggregate AFS **equity** securities at the lower of cost or fair value, not at fair value.

Report on CCR180 the amount on SC860, Unrealized Gains (Losses) on Available-for-Sale Securities, adjusted for losses on certain equity securities, as follows:

- SC860, Unrealized Gains (Losses) on Available-for-Sale Securities
- Plus: As a positive number, any portion of the amount on SC860 that represents unrealized **losses** on **equity** securities (but not debt securities), net of gains and net of income taxes.

**2. Accumulated Gains and Losses Related to Qualifying Cash Flow Hedges**

Equity capital on SC80 includes a separate component for accumulated gains and losses on qualifying cash flow hedges. See SC865, Gains (Losses) on Cash Flow Hedges. However, you cannot include that separate component of equity capital in regulatory capital.

**Report the result on CCR180 as follows:**

- When the amount on this line represents **gains**, net of losses, report a **negative** number **reducing** capital.
- When the amount on this line represents **losses**, net of gains, report a **positive** number **increasing** capital.

Report the corresponding adjustment to assets on CCR280. See the instructions for CCR280 for additional information.

**CCR185: Qualifying Intangible Assets**

Report PCCRs included on SC660 and CCR115. Note, however, that PCCRs are subject to deduction on CCR133.

**CCR190: Minority Interest in Includable Consolidated Subsidiaries Including REIT Preferred Stock Reported as a Borrowing**

Report minority interest in common and noncumulative perpetual preferred stock of **includable, consolidated** subsidiaries that you report on SC800, Minority Interest. Also include REIT preferred stock of an includable, consolidated subsidiary that you report on **either SC760 or SC800**, to the extent the amount is eligible for inclusion in Tier 1 (core) capital. See the instructions for CCR105 for a definition of nonincludable subsidiaries. Minority interest in nonincludable subsidiaries is not grandfathered; do not include it on CCR190.

The EFS software will add this line to equity capital in calculating Tier 1 (core) capital.

**CCR195: Other**

Report other items permitted to be added to Tier 1 Capital that are not included in CCR180 through CCR190.

**CCR20: Tier 1 (Core) Capital**

The EFS software will compute this line as follows: CCR100 less CCR105, CCR115, CCR133, and CCR134, plus CCR180, CCR185, CCR190, and CCR195.

## **CALCULATION OF ADJUSTED TOTAL ASSETS**

### **CCR205: Total Assets**

Report total assets of the consolidated entity as reported on SC60, Total Assets. The EFS software will compute this line from SC60, Total Assets.

### **Deduct:**

### **CCR260: Assets of "Nonincludable" Subsidiaries**

Report the entire amount of the assets of nonincludable subsidiaries included in Schedule SC. For consolidated subsidiaries, this amount should equal total assets of the subsidiary less any assets eliminated in consolidation. For subsidiaries accounted for under the equity method, this amount should equal your investment account plus all advances to the subsidiary.

Report this as a positive amount. The EFS software will deduct this line from total assets in calculating Tier 1 (core) capital.

### **CCR265: Goodwill and Certain Other Intangible Assets**

This line will equal SC660, Goodwill and Other Intangible Assets, with the exception of certain intangible assets such as intangible pension assets and computer software. Accordingly, the EFS software will automatically generate this line from SC660. However, if you have an intangible asset that is not required to be deducted from Tier 1 capital, such as intangible pension assets or capitalized computer software costs, you may change the generated amount.

Report this as a positive amount. The EFS software will deduct this line from total assets in calculating Tier 1 (core) capital.

### **CCR270: Disallowed Servicing Assets, Disallowed Deferred Tax Assets, Disallowed Residual Interests, and Other Disallowed Assets**

For most savings associations this line will equal CCR133. Accordingly, the EFS software will automatically generate this line from CCR133. However, this amount may change in certain cases. For example, deferred tax liabilities are deductible from servicing assets on CCR133, but are not deductible from servicing assets on CCR270. In which case you may override the generated amount.

Report this as a positive amount. The EFS software will deduct this line from total assets in calculating Tier 1 (core) capital.

### **CCR275: Other**

Report other items required to be deducted from Adjusted Total Assets not included in CCR260 through CCR270.



**Add:****CCR280: Accumulated Losses (Gains) on Certain Available-For-Sale Securities and Cash Flow Hedges**

Report on this line:

**1. Accumulated Unrealized Gains and Losses on Certain Available-for-Sale (AFS) Securities**

Report amounts included in total assets for accumulated unrealized gains and losses on certain AFS securities, including any related component of income tax assets. Calculate the amount included on this line for unrealized gains and losses on certain AFS securities as follows:

- The amount included in SC60, Total Assets, that corresponds to the separate component of equity capital on SC860.
- Plus: As a positive number, any amount included in SC60 that represents net unrealized **losses** on **equity** securities, but not debt securities.

**2. Derivative Instruments Reported as Assets Related to Qualifying Cash Flow Hedges**

Report amounts included in total assets for derivative instruments related to qualifying cash flow hedges, including any related component of income tax assets. Do not include derivative instruments reported as liabilities.

Report the result on CCR280 as follows:

- When the amount on this line represents a net amount that **increased assets** reported on Schedule SC, report a **negative** number that will deduct this amount from total assets for regulatory capital purposes.
- When the amount on this line represents a net amount that **decreased assets** reported on Schedule SC, report a **positive** number that will add this amount back to total assets for regulatory capital purposes.

Report the corresponding adjustment to equity capital on CCR180. See the instructions for CCR180 for additional information.

**CCR285: Qualifying Intangible Assets**

For most savings associations, this line will equal CCR185; therefore, the EFS software will generate the amount from CCR185. In certain cases, it may be appropriate to change this amount. For example, where you have deducted deferred tax liabilities from corresponding PCCRs on CCR185, you must override the generated amount and enter the gross amount of PCCRs.

**CCR290: Other**

Report other items permitted to be added to Adjusted Total assets that are not included in CCR280 or CCR285.

**CCR25: Adjusted Total Assets**

The EFS software will compute this line as follows: CCR205 less CCR260, CCR265, CCR270, and CCR275 plus CCR280, CCR285 and CCR290.

**CCR27: Tier 1 (Core) Capital Requirement**

This represents the Tier 1 capital necessary for adequate capitalization pursuant to 12 CFR § 565.

The EFS software will compute this line as CCR25, Adjusted Total Assets, multiplied by four percent. If we have assigned you a composite CAMELS rating of one, you should override the calculated amount and report CCR25 multiplied by three percent.

If you have an individual minimum capital requirement (IMCR) set by OTS that requires the maintenance of a capital level in excess of the minimum requirement, you should override the calculated amount and report your IMCR.

This amount should never be less than three percent of CCR25.

## TOTAL RISK-BASED CAPITAL REQUIREMENT:

### CCR30: TIER 1 (CORE) CAPITAL

The EFS software will bring forward Tier 1 (core) capital from CCR20.

### TIER 2 (SUPPLEMENTARY) CAPITAL

Under the OTS risk-based capital regulations, there are two types of capital: Tier 1 (core) capital and Tier 2 (supplementary) capital. Tier 2 (supplementary) capital includes certain specified instruments with characteristics of capital that do not qualify as Tier 1 (core) capital. You may include Tier 2 (supplementary) capital in your total risk-based capital, up to a maximum of 100 percent of your Tier 1 (core) capital.

#### **Tier 2 (supplementary) capital consists of the following:**

1. Permanent instruments not qualifying as Tier 1 (core) capital. Report on CCR310, Qualifying Subordinated Debt and Redeemable Preferred Stock; CCR340, Other Equity Instruments; and CCR355, Other.
2. Maturing instruments. After adjustments for the limitations described below, report on CCR310, Qualifying Subordinated Debt and Redeemable Preferred Stock; CCR340, Other Equity Instruments; and CCR355, Other.
3. Allowances for Loan and Lease Losses. Report on CCR350, Allowances for Loan and Lease Losses.
4. Up to 45 percent of your pretax unrealized gains, net of unrealized losses, on AFS equity securities. Report on CCR302.
5. Minority interests in includable subsidiaries consolidated under GAAP that are not eligible for inclusion in Tier 1 (core) Capital on CCR190, provided the minority interest meets the other requirements for Tier 2 (supplementary) capital and neither you nor any of your subsidiaries or other subordinate organizations that you own, directly or indirectly, hold the minority interest. Report such minority interest on CCR340, Other Equity Instruments.

#### **Maturing Capital Instruments Issued on or Before November 7, 1989**

Maturing capital instruments approved or grandfathered by the FHLBB before December 5, 1984, continue grandfathered status under the prior and current OTS capital regulation. You may include them in full in Tier 2 (supplementary) capital until the last year before maturity.

With our prior approval, you may include maturing capital instruments issued on or before November 7, 1989, in Tier 2 (supplementary) capital, following the procedures below that are applicable to instruments issued after that date.

#### **Maturing Capital Instruments Issued After November 7, 1989**

You may elect to include maturing capital instruments issued after November 7, 1989, by choosing one of the following options. Once you elect either option, you must continue to apply that option for all

subsequent issuances of maturing capital instruments as long as there is a balance outstanding of such issuances. Once such issuances have all been repaid, you may elect the other option for future issuances.

**Option 1** Tier 2 (supplementary) capital is equal to the outstanding capital instrument multiplied by the applicable percentage from the following amortization schedule:

<u>Years to Maturity</u>	<u>Percentage Counted as Tier 2 (Supplementary) Capital</u>
Greater than 5	100%
Greater than 4, but less than or equal to 5	80%
Greater than 3, but less than or equal to 4	60%
Greater than 2, but less than or equal to 3	40%
Greater than 1, but less than or equal to 2	20%
Less than or equal to 1	0%

**Option 2** Tier 2 (supplementary) capital will include only the aggregate amount of maturing capital instruments that mature in any one year during the seven years immediately before an instrument's maturity that does not exceed 20 percent of your capital. Capital is Tier 1 (core) capital plus, without limitation, items included in Tier 2 (supplementary) capital. There is no percentage of assets limitation for general loan and lease valuation allowances. There are no limitations on maturing capital instruments based on maturity dates. There is no limitation on Tier 2 (supplementary) based on the amount of Tier 1 (core) capital.

## **CCR302: Unrealized Gains on Available-for-Sale Equity Securities**

You may include in Tier 2 (supplementary) capital up to 45 percent of the amount of any pretax unrealized gains. This is net of any unrealized losses, on AFS **equity** securities included in SC140, Equity Securities Subject to FASB Statement No. 115. If losses exceed gains, do not report an amount on this line. When you report unrealized gains, net of unrealized losses, here and include them in supplementary capital, you must include the entire (100 percent) unrealized gains, net of unrealized losses, in assets to risk weight. In other words, you must risk weight the fair value, not the historical cost of these AFS equity securities.

**Do not include** unrealized gains on AFS **debt** securities or on equity securities in a trading portfolio.

## **CCR310: Qualifying Subordinated Debt and Redeemable Preferred Stock**

**Include:**

1. Perpetual subordinated debentures and mandatory convertible securities.
2. Maturing subordinated debentures, mandatory convertible securities, and redeemable preferred stock calculated according to the above instructions.

## **CCR340: Other Equity Instruments**

Report equity instruments you issued that we permit as supplemental capital but not as Tier 1 (core) capital and that you deducted on CCR134.

**Include:**

1. Cumulative preferred stock reported on SC812.
2. Preferred stock reported on SC812 or SC814 where the dividend adjusts based on current market conditions or indexes and the issuer's current credit rating;
3. Any other equity instruments reported on CCR134 except preferred stock that is, in effect, collateralized by assets of the reporting savings association; and
4. Minority interest reported on SC800, Minority Interest, in excess of the amount included in Tier 1 (core) capital on CCR190.

**CCR350: Allowances for Loan and Lease Losses**

Report ALLL established by you and your consolidated includable subsidiaries as defined in the instructions for CCR105. You cannot grandfather ALLL for nonincludable subsidiaries for this calculation. Note that Tier 2 (supplementary) capital limits the inclusion of ALLL reported on CCR 350 to 1.25 percent of risk-weighted assets. Apply the percentage limitation to Subtotal Risk-Weighted Assets on CCR75.

**For regulatory capital purposes, the ALLL potentially reportable on CCR350 consists of:**

1. First – allowances established to cover probable, but not specifically identifiable, credit losses associated with on-balance-sheet loans and leases, reported as ALLL on mortgage loans (SC283) and on nonmortgage loans (SC357).
2. Second, if the capital limit mentioned above permits – liabilities for credit losses associated with off-balance-sheet credit exposures (such as commitments, letters of credit, and guarantees) included in Other Liabilities and Deferred Income (SC796), with the following exception: *Any portion of this liability related to transfers of loans or other assets reported as sales with recourse is separate and distinct from the ALLL, and therefore is **not** includable in CCR350.*

Include purchased ALLL where the balance and nature of the purchased ALLL is consistent with OTS policy in the Thrift Activities Regulatory Handbook, Sections 260 and 261.

**Do not include:**

1. ALLL of unconsolidated subordinate organizations.
2. ALLL of nonincludable subsidiaries.
3. Recourse liability accounts that arise from recourse obligations for any transfers of loans or other assets that are reported as sales. Such accounts are separate and distinct from the ALLL.

**CCR355: Other**

Report other items permitted in Tier 2 Capital that you do not include in CCR302 through CCR350.

**CCR33: Tier 2 (Supplementary) Capital**

The EFS software computes this line as the sum of CCR302, CCR310, CCR340, CCR350 and CCR355.

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## CCR35: ALLOWABLE TIER 2 (SUPPLEMENTARY) CAPITAL

The EFS software computes this line as follows.

If Tier 1 (core) capital is a positive amount, the software reports the lesser of the following:

1. Tier 2 (supplementary) Capital reported on CCR33.
2. Tier 1 (core) Capital reported on CCR30.
3. If you have negative Tier 1 (core) capital, the software reports zero on CCR35.

The amount of Tier 2 (supplementary) capital included in total capital cannot exceed the amount of Tier 1 capital.

## CCR370: Equity Investments and Other Assets Required to be Deducted

Report the assets that 12 CFR § 567.5(c) requires to be deducted from total capital unless deducted elsewhere.

### Include:

1. Investments in other depository institutions (reciprocal holdings) that other depository institutions may count in their regulatory capital such as capital stock, qualifying subordinated debt, etc.
2. The entire amount of all the following items:
  - a. Your nonincludable debt and equity investments including debt and equity investments in subordinate organizations not constituting subsidiaries under 12 CFR § 567.1 (investments in entities not consolidated under GAAP) that engage as principal in activities impermissible for national banks and not otherwise includable under § 5(t) of HOLA.
  - b. Investments in real property except real property primarily used or intended to be used by you, your subsidiaries, subordinate organizations, or affiliates as offices.
  - c. Real property acquired in satisfaction of a debt, where you intend to hold the property for real estate investment purposes or do not expect to dispose of it within five years.

### The term equity securities means any:

1. Stock.
2. Certificate of interest of participation in any profit sharing agreement.
3. Collateral trust certificate or subscription.
4. Preorganization certificate or subscription.
5. Investment Contract.
6. Voting trust certificate.
7. Securities immediately convertible into equity securities at the option of the holder without payment of substantial additional consideration such as convertible subordinated debt.
8. Securities carrying any warrant or right to subscribe to or purchase an equity security.
9. Investments, loans, advances, and guarantees issued on behalf of unconsolidated subordinate organizations.
10. Investments in real property not classified as fixed assets or repossessed property.

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**Do not include:**

1. Interests in real property that are primarily used by you, your subsidiaries, subordinate organizations, or affiliates as offices or related facilities to conduct business. Report on CCR506, 100 percent Risk weight: All Other Assets.
2. Interests in real property that you acquire in satisfaction of a debt previously contracted in good faith or acquired in sales under judgments or decrees (REO). Report on CCR506, 100 percent Risk weight: All Other Assets.
3. FHLBank Stock.
4. Equity investments permissible for both savings associations and national banks. Risk weight them at 100 percent on CCR506. These include:
  - a. Freddie Mac Stock.
  - b. Fannie Mae Stock.
  - c. Equity investments in subordinate organizations not constituting subsidiaries under 12 CFR § 567.1 – investments in subordinate organizations not consolidated under GAAP, that engage solely in activities as agent for customers or engage as principal in activities permissible for national banks or otherwise includable under § 5(t) of the HOLA.
  - d. Real estate loans that are equity investments under GAAP and are permissible investments for national banks.
  - e. Mutual funds and pass-through investments, defined in 12 CFR § 560.32 that invest in any of the above categories of permissible equity investments.
5. Investments in subsidiaries and/or equity investments that FSLIC or any successor agency fully covers. Report the entire amount of such investment on CCR409, 0% Risk weight: Notes and Obligations of FDIC, Including Covered Assets. There is no requirement for you to deduct such investments from capital.

**Computation of CCR370 When General Valuation Allowances have been established:**

Calculate the amount of equity investments reported on CCR370 net of charge-offs and general valuation allowances. For example, if you established a \$10 specific valuation allowance against a \$100 equity investment, you only deduct \$90 from total capital and enter \$90 on CCR370.

In computing CCR370, you should reduce the amount you calculated using the above instructions by the amount of general valuation allowances established against equity investments and required deductions in real property investments. To receive this credit, you **must** establish the general valuation allowance at the savings association level as a contra-asset to the equity investments and investments in real property. You must have and maintain adequate records to enable examiners to verify your claim that you established the general valuation allowances against these specific assets.

For example, if you have a \$100 equity investment, net of charge-offs and specific valuation allowances, against which you established no general valuation allowance after July 1, 1994, you should enter the full asset amount, \$100, on CCR370. If you established a \$10 general valuation allowance against that same asset, you should deduct the \$10 general valuation allowance from the \$100 investment, resulting in deduction of \$90.

Do **not** include general valuation allowances established on other assets in the credit computation outlined above.

**CCR375: Deduction for Low-Level Recourse and Residual Interests**

If you elect the “direct deduction” approach for low-level recourse and residual interests, report on this line the amount of 1) low-level recourse and 2) residual interests reported on SI402 and SI404. However, you should reduce the amount of residual interests reported here by any amount reported on CCR133. In addition, you may reduce the amount of low-level recourse and residual interests reported here by the amount of any corresponding deferred tax liability.

**Include:**

1. The amount of recourse liability you retain when it is less than the capital requirement for credit-risk exposure and therefore not converted to an on-balance-sheet equivalent. For example, in the sale of most assets with one percent recourse, the amount of liability retained usually is less than the capital requirements, and therefore you would report one percent of the assets sold on CCR375 or CCR605. See the instructions for the 100 percent credit conversion factor in the Conversion of Off-balance-sheet Items to On-balance-sheet Equivalents section above.
2. The amount of on-balance-sheet financial instruments pursuant to FASB Statement No. 140 representing subordinated credit risk interests, including interests in spread accounts and asset pools. However, your low-level recourse requirement may exceed the amount of this instrument if you are subject to credit losses exceeding the amount of the instrument.

**CCR39: TOTAL RISK-BASED CAPITAL**

The EFS software will compute this line as the total of CCR30 plus CCR35 minus CCR370, and CCR375.



## RISK-WEIGHT CATEGORIES

### General Instructions

To calculate the total risk-based capital standard you must classify your assets in one of four risk-weight categories described below. Do **not** risk weight the assets that you have deducted from Tier 1 (core) capital – for example, nonincludable subsidiaries, nonqualifying intangibles, and disallowed assets.

Consolidate the assets of includable, GAAP-consolidated subsidiaries in determining the appropriate risk-weight categories. However, exclude the assets of **nonincludable subsidiaries** and **nonincludable equity investments** when computing risk-weighted assets.

Tier 2 (supplementary) capital includes ALLL but does not include other general valuation allowances. Consequently, to calculate the amount to be risk weighted, you may deduct allocated general valuation allowances from assets other than loans and leases but you may **not** deduct **ALLL** from loans and leases. In other words, you should risk weight loans at their recorded investment less only their specific valuation allowances, and risk weight all other assets at their recorded investment less their specific valuation allowances and allocated general valuation allowances.

You should risk weight assets after you make regulatory capital adjustments to those assets. For example, if we required you to deduct gains or add back losses on AFS securities in Tier 1 (core) capital, you should risk weight those securities at historical cost, not at fair value. The same is true for adjustments for disallowed servicing assets, disallowed net deferred tax assets, and other adjustments to Tier 1 (core) capital. If you exclude assets, portions of assets, or adjustments to assets from Tier 1 (core) capital, you should exclude them from risk-weighted assets. Additionally, where you have included up to 45 percent of the pretax unrealized gains, net of unrealized losses, on AFS equity securities in Tier 2 capital (CCR302), you should include 100 percent of those unrealized gains in risk-weighted assets. In other words, you should risk weight the fair value, not the historical cost, of these AFS equity securities.

In determining the appropriate risk-weight category for **secured loans**, you must look at the type of collateral. In determining the appropriate risk-weight category for investments in **mutual funds**, you must look to the characteristics of the assets in the fund. Where the portfolio of a mutual fund consists of various assets that require different treatment under the capital requirement, you have two alternatives:

1. You may deal with the entire ownership interest in the mutual fund based on the asset with the highest capital requirement in the portfolio, or exclude the mutual fund from assets and thus deduct it from calculations of total capital, as appropriate.
2. You may assign different risk-weight categories to the mutual fund on a pro-rata basis, according to the investment limits for different categories in the fund's prospectus.

Regardless of the risk-weighting method used, the total risk weight of a mutual fund must be no less than 20 percent.

Accrued interest receivable that is not delinquent is part of the recorded investment in that loan or investment and should be risk-weighted with the underlying asset. Generally, delinquent accrued interest receivable is risk weighted at 100%

Multiply the sum of each risk-weight category by the appropriate risk-weight percentage for that category. For instance, you would multiply the sum of the zero percent risk-weight category by zero percent. After

adding each risk-weight category and multiplying by its appropriate risk weight, add the product of each risk-weight category. This results in the on-balance-sheet portion of the total risk-based capital standard.

Include **off-balance-sheet items** in the total risk-based capital standard after converting them into on-balance-sheet equivalents. Convert off-balance-sheet items by taking the dollar amount of the off-balance-sheet item or the grossed up amount of off-balance-sheet recourse obligations under 12 CFR § 567.1, as appropriate. Multiply that amount by the appropriate credit conversion factor from the table that follows the discussion of risk-weight categories. Additionally, you should risk weight interest-rate and exchange-rate contracts by calculating a credit equivalent amount. See explanation following the discussion of off-balance-sheet items.

Report in the appropriate category all on-balance-sheet assets together with all on-balance-sheet equivalents (off-balance-sheet items after converting them according to the discussion above). From the sum of on-balance-sheet and off-balance-sheet risk-weighted assets, deduct ALLL that exceeds the amount you may include as capital on CCR350.

**Note:** Report all loans and investments that are more than **90 days past due** on CCR506, 100 percent Risk weight. Report all of these loans on CCR506 regardless of the type of investment or collateral, except for FDIC covered assets. Report FDIC covered assets on CCR409, 0% Risk weight: Notes and Obligations of FDIC Including Covered Assets.

## 0% Risk weight

### CCR400: Cash

Report all cash-on-hand, including the amount of domestic and foreign currency owned and held or in transit in all your offices. Convert any foreign currency into U.S. dollar equivalents as of the date of the report.

**Do not include:**

1. Cash deposited in another financial institution, whether interest-bearing or non-interest-bearing. Report on CCR445.
2. Cash equivalents such as travelers' checks. Report on CCR445.

### CCR405: Securities Backed by Full Faith and Credit of U.S. Government

Report securities, not loans, on this line. Report the amount of securities issued by and other direct claims on the following:

1. The U.S. Government or its agencies to the extent such securities or claims are **unconditionally** backed by the full faith and credit of the U.S. Government.
2. The central government of an Organization of Economic Cooperation and Development (OECD) country.

**Include:**

1. Most Ginnie Mae securities. (Note that an interest only strip or Ginnie Mae security that exhibits similar interest rate risk would not be eligible for 0% risk weight. Report as 100% risk weight on CCR 505.)

2. U.S. Treasury securities.
3. SBA pools or certificates, or portions thereof, that have an unconditional guarantee by the full faith and credit of the U.S. Government.

**Do not include:**

1. Notes and obligations of the FDIC. Report on CCR409.
2. Assets collateralized by U.S. Government securities. Report on CCR450, 20% Risk weight: Other.
3. Mortgage-backed securities (MBS) where you have recourse for the underlying loans. The capital requirement on such obligations should follow the standard treatment of recourse obligations.
4. Delinquent mortgage loans previously securitized with Ginnie Mae, where either (a) you have an unconditional repurchase option, or (b) you have repurchased the loans under such an option. Report on CCR450, 20% Risk weight: Other.

**CCR409: Notes and Obligations of FDIC, Including Covered Assets**

Report notes and obligations of the FDIC that have the unconditional backing by the full faith and credit of the U.S. Government. Include the portion of assets **fully** covered against capital loss and/or yield maintenance agreements by the FDIC. Place that portion of assets without FDIC coverage (for example, those included in a deductible) in a risk-weight category according to the characteristics of the asset. If you cannot assign a deductible under a coverage agreement to a specific type of asset, then you should place the deductible in the 100 percent risk-weight category.

Include investments in subsidiaries and equity investments with full FDIC coverage, regardless of the percentage of ownership or business activity of the entity in which you have invested.

**CCR415: Other**

Report all zero percent risk-weight assets not included above as defined in 12 CFR § 567.6(a)(1)(i).

**Include:**

1. Deposit reserves at, claims on, and balances due from Federal Reserve Banks, excluding interest rate contracts. Report interest rate contracts on CCR450, 20% Risk weight: Other.
2. The book value of paid-in Federal Reserve Bank stock.
3. That portion of assets not included elsewhere in the zero percent risk-weight category directly and unconditionally guaranteed by the U.S. Government or its agencies, or the central government of an OECD country.

**CCR420: Total**

The EFS software will compute this line as the sum of CCR400 through CCR415.

**CCR40: 0% Risk-Weight Total**

The EFS software will automatically compute this line as zero percent times CCR455, the risk-weighted product of all zero percent risk-weighted assets.

## 20% Risk weight

### **CCR430: Mortgage and Asset-Backed Securities Eligible for 20% Risk Weight**

Report mortgage-related securities and other asset-backed securities that meet the criteria for 20% risk weight. **Note** that if you have a **subordinate** class of an otherwise 20% risk weight, high-quality MBS, you must gross up and risk weight your security plus the balance of all classes senior to it. However, if you are able to utilize the ratings based approach (12 CFR 567.6), it is not necessary to gross up the more senior positions. See also CC455, CC465, and CC468.

**Include:**

1. Most Fannie Mae and Freddie Mac mortgage-related securities. (Note: Report Fannie and Freddie principal-only stripped securities (POs) and interest-only stripped securities (IOs) that are not credit enhancing on CCR 505.)
2. Asset-backed securities with an AAA or AA rating that meet the criteria of the ratings based approach - 12 CFR § 567.6.

**Do not include:**

1. Stripped MBS. Report IO and PO strips that are not credit enhancing of otherwise high quality MBS on CCR506, 100% risk weight.
2. Ginnie Mae mortgage pool securities. Refer to instructions for CCR405.
3. MBSs where you have recourse for the underlying loans. The capital requirement on such obligations should follow the treatment of recourse obligations.

### **CCR435: Claims on FHLBs**

Report all investments in, claims on, and balances due from Federal Home Loan Banks.

**Include:**

1. Book value of Federal Home Loan Bank stock.
2. Demand, savings, and time deposits with a FHLBank.
3. Securities, bonds, and notes issued by the Federal Home Loan Bank System
4. The credit equivalent amount of interest rate contracts, interest-rate swaps and caps, where the counterparty is a Federal Home Loan Bank.

### **CCR440: General Obligations of State and Local Governments**

Report the amount of securities and other general obligations issued by state and local governments.

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**CCR445: Claims on Domestic Depository Institutions**

Include the following obligations of domestic depository institutions:

1. Demand deposits and other transaction accounts.
2. Savings deposits.
3. Time certificates.
4. Travelers' checks and other cash equivalents.
5. Cash items in the process of collection.
6. Federal funds sold.
7. Loans and overdrafts.
8. Debt securities.
9. The credit equivalent amount of interest and exchange rate contracts (interest-rate swaps and caps) where the counterparty is a domestic depository institution.

**Do not include:**

1. Investments in other depository institutions where those institutions may count the investments in their regulatory capital, such as capital stock, qualifying subordinated debt, etc. Report on CCR370, Assets Required to be Deducted.
2. Interest rate contracts with a FHLBank or a Federal Reserve Bank. Report on CCR435 and CCR450, respectively.

**CCR450: Other**

Report all twenty percent risk-weight assets, not included above, as defined in 12 CFR § 567.6(a)(1)(ii).

**Include:**

1. Assets conditionally guaranteed by the U.S. Government, such as VA and FHA insured mortgage loans, the guaranteed portion of SBA, FhMA, and AID loans, and FICO and REFCO bonds, etc.
2. Delinquent mortgage loans previously securitized with Ginnie Mae, where either (a) you have an unconditional repurchase option, or (b) you have repurchased the loans under such an option.
3. Loans and other assets fully collateralized by deposits.
4. The credit equivalent amount of interest rate contracts (interest-rate swaps and caps) where the counterparty is a Federal Reserve Bank.
5. Assets collateralized by U.S. Government securities other than mortgage related securities on CCR430.
6. Securities issued by, or other direct claims on, U. S. Government-sponsored agencies, including notes issued by Fannie Mae and Freddie Mac. Do not include equity securities or MBSs.

**CCR455: Total**

The EFS software will compute this line as the sum of CCR430 through CCR450.

**CCR45: 20% Risk-Weight Total**

The EFS software will compute this line as twenty percent times CCR455, the risk-weighted product of all 20 percent risk-weighted assets.

**50% Risk weight****CCR460: Qualifying Single-family Residential Mortgage Loans**

Report the carrying value, outstanding balance less all specific valuation allowances, of all qualifying single-family residential mortgage loans secured by a first lien when you have no other extensions of credit secured by a second lien on the same property to the same consumer, if such loans meet all of the following criteria:

1. You have prudently underwritten the loan.
2. The loan is performing and not more than 90 days past due.
3. The current LTV ratio is 90% or less, calculated using the value at origination, including loans individually insured by private mortgage insurance or other appropriate credit enhancement that brings the effective LTV down to 90% or less.

Notes:

1. See 12 CFR 567.1 for the definition of Qualifying Mortgage Loan.
2. A loan with an LTV higher than 90%, without PMI or other readily marketable collateral enhancement, would not typically qualify for the 50% risk weight. The Real Estate Lending Guidelines urge savings associations as well as other types of banking organizations, to require PMI or other appropriate credit enhancement if a mortgage exceeds 90% LTV. See 12 CFR 560.101, and the footnote in the section on supervisory loan-to-value limits. These guidelines constitute a supervisory presumption of safety and soundness. To overcome that presumption for a loan that exceeds 90% LTV, a bank or thrift must demonstrate to the examiners' satisfaction that the loan is both prudently underwritten, and that it qualifies for the 50% risk weight in spite of the absence of private mortgage insurance or other appropriate credit enhancement.

Also, report the combined carrying value of all mortgage and consumer loans secured by liens on the **same** one- to four-family residential property, with no intervening liens. For example, you hold extensions of credit secured by first lien and second lien positions. Include in 50 percent risk weighting, if the loan meets all the following criteria:

1. You have prudently underwritten each loan.
2. Each loan is performing and not more than 90 days past due.
3. One of the following is true:
  - a. The combined loan-to-value ratio (CLTV) does not exceed 90 percent at origination.
  - b. The combined extension of credit is insured to at least a 90 percent LTV ratio by private mortgage insurance, or there is other appropriate credit enhancement to bring the effective LTV down to 90 percent or less.
  - c. The current LTV ratio is 90% or less, calculated using the value at origination, including loans individually insured by private mortgage insurance or other appropriate credit enhancement that brings the effective LTV down to 90% or less.

When you hold the first lien and junior liens on a 1-to-4-family residential property and no other party holds an intervening lien, view the loans as a **single** extension of credit secured by a first lien on the underlying property. Use this treatment to determine the LTV ratio, as well as for risk weighting. Assign the combined loan amount to either the 50 percent or 100 percent risk category, depending on whether the credit satisfies the criteria for 50 percent risk weighting. In determining the LTV ratio, you must combine all loans secured by the same property regardless of whether you classify the loan as a mortgage or consumer loan in Schedule SC. You need not include loans classified in Schedule SC as commercial loans made to businesses and secured by residential property when you calculate the CLTV ratio for that property. You should risk weight such commercial loans at 100 percent.

If there is an intervening lien, do not combine the loans because another entity holds the second lien (the intervening lien). For example, you hold a first mortgage and third lien as a home equity line. In this case, you risk weight the carrying value of the loan secured by the first lien at 50 percent if the LTV is less than 90 percent and it otherwise meets the 50 percent risk-weight criteria. You risk weight the carrying value of the loan secured by the third lien at 100 percent, regardless of the CLTV.

In addition, include the following types of loans in the definition of single-family mortgage loans. These loans must meet the criteria above to be risk weighted at 50 percent:

1. Loans on interests in cooperative buildings.
2. Loans to individuals to fund the construction of their own home that meet the definition of a qualifying residential construction loan in 12 CFR § 567.1. You may include any accrued interest receivable in the loan balance.
3. Mortgage loans on mixed-use properties that are primarily single-family residential properties.

**Do not include:**

1. The combined carrying value of mortgage and consumer loans secured by first or second liens on the same property when the CLTV ratio exceeds 90 percent. Report the combined carrying value of these loans on CCR506, 100% Risk weight: All Other Assets.
2. The combined carrying value of mortgage and consumer loans secured by first and second liens on the same property if any of the extensions of credit are nonperforming (nonaccrual) or more than 90 days past due. Report on CCR506, 100% Risk weight: All Other Assets.
3. A loan to a consumer collateralized by a junior lien when another lender holds an intervening lien. For example, you hold the second lien and another lender holds the first lien, or you hold the first lien and the third lien, but do not hold the second lien (intervening lien). Report the junior lien on CCR506, 100% Risk weight: All Other Assets.
4. Foreclosed real estate. Report on CCR506, 100% Risk weight: All Other Assets.
5. Loans to individuals to construct their own home that are not qualifying residential construction loans as defined in 12 CFR § 567.1. Report on CCR506, 100% Risk weight: All Other Assets.
6. The portion of loans guaranteed by FHA that may be risk weighted at 20 percent. Report on CCR450.
7. Loans to commercial entities collateralized by mortgages of third-party borrowers (warehouse loans), or small business loans collateralized by a lien on a residential property. Report on CCR506, 100% Risk weight: All Other Assets.

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## CCR465: Qualifying Multifamily Residential Mortgage Loans

### Qualifying Multifamily Mortgage Loans (12 CFR § 567.1) Under Current Rule

Report the carrying value plus accrued interest receivable, of permanent, first mortgages secured by first liens on multifamily residential properties consisting of five or more dwelling units that meet **all** the following criteria:

1. Amortization of principal and interest occurs over a period of not more than 30 years.
2. Original minimum maturity for repayment of principal on the loan is not less than seven years.
3. At the time you placed the loan in the 50 percent risk-weight category, the owner had made all principal and interest payments on the loan for the preceding year on a timely basis according to the loan terms (not 30 days or more past due).
4. The loan is performing and not 90 days or more past due.
5. You made the loan according to prudent underwriting standards.
6. The current outstanding loan balance does not exceed 80 percent (75 percent for variable rate loans) of the value of the property securing the loan. "Value of the property" (when you originate a loan to purchase a multifamily property) means the lower of either the purchase price or the amount of the initial appraisal, or if appropriate, the initial evaluation. Where a purchaser is not purchasing a multifamily property, but taking a new loan on his currently owned property, determine the value of the property by the most current appraisal, or if appropriate, the most current evaluation.
7. For the property's most recent fiscal year, the ratio of annual net operating income generated by the property, before payment of any debt service on the loan, to annual debt service on the loan is not less than 120 percent, (115 percent for variable-rate loans). In the case of cooperative or other not-for-profit housing projects, the property generates sufficient cash flows to provide you comparable protection.

In cases where a borrower refinances a loan on an existing property, instead of complying with criteria (3) and (7) above, a loan may qualify by satisfying the following criteria:

1. For the preceding year, the owner made all principal and interest payments on the loan being refinanced on a timely basis, not 30 days or more past due, according to the loan terms.
2. The net income on the property for the preceding year would have supported timely payment of principal and interest on the new loan according to the applicable debt service requirement.

12 CFR § 567.1 defines residential property as houses, condominiums, cooperative units, and manufactured homes. This definition does not include hospitals and nursing homes. Manufactured homes are those subject to HUD regulations under Title VI of the U.S. Code.

Include mortgage loans on mixed-use properties that are primarily multifamily residential properties if they satisfy the criteria for qualifying multifamily mortgage loans.

### Grandfathered Qualifying Multifamily Mortgage Loans

Qualifying multifamily mortgage loans include multifamily mortgage loans that on March 18, 1994, met the criteria of qualifying multifamily mortgage loans under our capital rule on March 17, 1994, and continue to meet those criteria, namely:

1. An existing property consisting of 5 to 36 dwelling units secures the mortgage.



2. The initial LTV ratio is not more than 80 percent.
3. For the past full year, the property's average annual occupancy rate is 80 percent or more of total units.

## **CCR470: Mortgage and Asset-Backed Securities Eligible for 50% Risk Weight**

### **Mortgage-Backed Securities:**

Report MBS, other than high quality MBS reported on CCR430, secured by **qualifying single-family** residential mortgage loans eligible to be reported on CCR460 or **qualifying multifamily** residential mortgage loans eligible to be reported on CCR465. Include POs secured by qualifying single-family or multifamily residential mortgage loans unless you can report them on CCR430.

If **qualifying multifamily residential mortgage loans** back the securities, you must receive timely payments of principal and interest according to the terms of the security. Generally, consider payments timely if they are not 30 days or more past due.

**Note** that if you have a subordinate class of an otherwise 50% risk-weight, high-quality MBS, you must gross up and risk weight your security plus the balance of all classes senior to it. However, if you are able to utilize the ratings based approach (12 CFR 567.6), it is not necessary to gross up the more senior positions. See also CC455, CC465, and CC468.

### **Asset-Backed Securities:**

Also include asset-backed securities eligible for 50% risk weight under the ratings-based approach ("A" rated that meet all the criteria of the ratings based approach).

### **Do not include:**

Interest Only Strips. Report credit-enhancing interest-only strips as residuals. Refer to the definitions in 12 CFR 567.1 and to the capital treatment in 12 CFR 567.6(b). See instructions for lines CCR133, CCR270, CCR375, CCR605, and SI402. Report IO and PO strips that are not credit enhancing of otherwise high quality MBS on CCR506, 100% risk weight.

## **CCR475: State and Local Revenue Bonds**

Report securities issued by state and local governments where the revenues from a stated project such as a toll road repay the security.

## **CCR480: Other**

Report all fifty-percent risk-weight assets not included above as defined in 12 CFR § 567.6(a)(1)(iii).

### **Include:**

1. The credit equivalent amount of interest and exchange rate contracts (interest-rate swaps and caps) where the counterparty is an entity other than a domestic depository institution, a FHLBank, or a Federal Reserve Bank.

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2. Revenue bonds issued by any public-sector entity in an OECD country that are payable solely from the revenues generated from the project financed through the issuance of the obligations.
  3. Qualifying residential construction loans, also called residential bridge loans, meeting the criteria of 12 CFR § 567.1. Such loans must satisfy the following criteria:
    - a. You must make the loan according to sound lending principles to a builder with at least 15 percent equity in the project (or higher, depending upon the risk of the project) who will construct a one- to four-family residence that, when sold, will be owner-occupied.
    - b. You must obtain sufficient documentation from a permanent lender (that may be the construction lender) demonstrating all the following:
      - i. The homebuyer intends to purchase the residence.
      - ii. The homebuyer has the ability to obtain a permanent qualifying mortgage loan sufficient to purchase the residence.
      - iii. The homebuyer has made a substantial earnest money deposit.
    - c. The construction loan must meet all the following requirements:
      - i. Not exceed 80 percent of the sales price of the residence.
      - ii. Be secured by a first lien on the lot, residence under construction, and other improvements.
      - iii. Be performing and not more than 90 days past due.
    - d. The home purchaser(s) must intend that the home will be owner-occupied and must not be a business entity or any entity that is purchasing the home(s) for speculative purposes.
    - e. You must retain sufficient undisbursed loan funds throughout the construction period to ensure project completion. The builder must incur a significant percentage of direct costs; for example, the actual costs of land, labor, and material, before he draws on the loan.

**CCR485: Total**

The EFS software will compute this line as the sum of CCR460 through CCR480.

**CCR50: 50% Risk-Weight Total**

The EFS software will compute this line as 50 percent times CCR485, the risk-weighted product of all 50 percent risk-weight assets.

**100% Risk weight****CCR501: Securities Risk Weighted at 100% (or More) Under Ratings-Based Approach**

Include on this line:

1. Asset-backed securities or exposures eligible for 100% risk weight under the ratings-based approach. Example: "BBB" rated.

2. Also include asset-backed securities or exposures that receive a 200% risk weight under the ratings-based approach. Example: "BB" rated. For these 200% risk weight items, you must first multiply the balance by 2 (two).

**Note:** Only a limited set of asset-backed securities and other exposures arising from securitization activities qualify for this risk weighting, and these must meet all of the requirements of the ratings-based approach. Refer to 12 CFR 567.6(b)(3).

## CCR506: All Other Assets

Report all other assets except those included above or in any other risk-weight category.

### Include:

1. Consumer loans.
2. Commercial loans.
3. All assets that are nonperforming or more than 90 days past due, except FDIC covered assets. Report FDIC covered assets on CCR409, 0% Risk weight.
4. All repossessed assets including repossessed real estate (REO), other repossessed assets, and equity investments that have the same characteristics as REO, for example stock from an REO workout firm that has been approved for inclusion in the 100% risk-weight category.
5. First and junior mortgages on one- to four-family dwelling unit properties that do not qualify for inclusion on CCR460 (50% Risk weight: Qualifying Single family Residential Mortgage Loans).
6. Multifamily mortgage loans that do not meet the qualifying criteria for inclusion on CCR465, 50% Risk weight: Qualifying Multifamily Residential Mortgage Loans.
7. Residential construction loans, except those to individuals to build their own homes that you report on CCR460, and except qualifying residential construction loans (bridge loans) as defined in CCR480.
8. Nonresidential construction loans as defined in the instructions for SC260, Nonresidential Property.
9. Obligations issued by a state or political subdivision for the benefit of a private party or enterprise where that party or enterprise, rather than the issuing state or political subdivision, is responsible to pay principal and interest on the obligation (industrial development bonds).
10. Private-issue debt securities, including commercial paper, except those that you report in the 20 percent or 50 percent risk-weight categories.
11. Investments in fixed assets and premises.
12. Qualifying intangible assets reported on CCR185.
13. Servicing assets, less the amount included on CCR133.
14. The gross amount of wrap-around loans where you are liable on the first mortgage or must assume the first mortgage to perfect your position. Report the wrap-around loan net of the first mortgage if you have no liability on the first mortgage loan or obligation to assume it.
15. Equity investments that are permissible for both savings associations and national banks and including the following:
  - a. Fannie Mae Stock.
  - b. Freddie Mac Stock.

- c. Equity investments in unconsolidated subordinate organizations (those that do not qualify as subsidiaries under 12 CFR § 567.1) that engage solely in activities as agent for customers or engage as principal in activities permissible for national banks or otherwise are includable under § 5(t) of the HOLA.
  - d. Real estate loans that are equity investments under GAAP and are includable under the Office of the Comptroller of the Currency's (OCC's) capital rule.
  - e. Mutual funds and pass-through investments, defined in 12 CFR § 560.32, that invest in any of the above categories of permissible equity investments.
16. Loans to commercial entities collateralized by mortgages of third party borrowers (warehouse loans).
17. Interest-only (IO) and principal only (PO) stripped securities that are not credit enhancing. This category includes most IOs and POs issued by Fannie Mae and Freddie Mac.
18. Any other remaining assets that you do not deduct from capital on CCR133 or CCR375, or that you do not "super risk-weight" using CCR605 and CCR62.

**CCR510: Total**

The EFS software will compute this line as the sum of CCR501 and CCR506.

**CCR55: 100% Risk-Weight Total**

The EFS software will compute this line as 100 percent times CCR510, the risk-weighted product of all 100 percent risk-weight assets.

**CONVERSION OF OFF-BALANCE-SHEET ITEMS TO ON-BALANCE-SHEET EQUIVALENTS**

Include off-balance-sheet items in the total risk-based capital standard after converting them into on-balance-sheet equivalents. Convert off-balance-sheet items to on-balance-sheet equivalents by taking the dollar amount of the off-balance-sheet item and multiplying it by the appropriate credit conversion factor from the table below.

SC689, Other Assets, and SC796, Other Liabilities and Deferred Income, include the fair value of derivative instruments accounted for under FASB Statement No. 133. We treat on-balance-sheet derivative instruments used for risk management purposes, rather than for trading, as off-balance-sheet items for risk-based capital purposes. Accordingly, you should risk weight only the converted on-balance-sheet equivalent amounts, not the amounts reported on SC689 and SC796.

Place the on-balance-sheet equivalents (converted off-balance-sheet items) in the appropriate risk-weight category just as any other on-balance-sheet assets. For example, place an off-balance-sheet letter of credit in the same risk-weight category as the loan would be upon execution of the letter of credit.

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## Loans in Process (Undisbursed Loan Balances)

You may convert all LIP that meets the following criteria at a zero percent conversion factor. In other words, you do not risk weight it.

1. LIP that contractually must be fully disbursed or expire in one year or less under the original terms of the contract.
2. LIP that you may disburse over a period of time exceeding one year and that meets both of the following criteria:
  - a. You may unconditionally cancel the agreement.
  - b. You make a separate credit decision before each draw.

Convert all LIP that does not meet the criteria in #1 or #2 above at a 50 percent conversion factor and place in the risk-weight category appropriate for the related loan, except as follows:

1. When the borrower pays interest on the full amount of the loan, including both the disbursed and undisbursed portions, you must convert the LIP to an on-balance-sheet equivalent at a 100 percent credit conversion factor.
2. When the LIP is a direct credit substitute, you must convert it to an on-balance-sheet equivalent at a 100 percent credit conversion factor.

## Table of Conversion Factors for Off-Balance-Sheet Items

This calculation translates the face amount of an off-balance-sheet exposure into an on-balance-sheet credit equivalent amount.

### Zero Percent Credit Conversion Factor (not risk weighted)

**Include:**

1. Unused commitments with an original maturity of one year or less.
2. Unused commitments with an original maturity of greater than one year:
  - a. That you may unconditionally cancel at any time
  - b. You have the contractual right to make, and you do make, either:
    - i. A separate credit decision based upon the borrower's current financial condition before each draw.
    - ii. An annual, or more frequent credit review, based upon the borrower's current financial condition to determine whether or not to continue the lending arrangement.
3. Unused portions of retail credit card lines of credit that you may unconditionally cancel to the extent allowed by applicable law.
4. Unused portion of home equity lines of credit:
  - a. That you may unconditionally cancel at any time to the extent allowed by federal law.
  - b. You have the contractual right to make, and you do make, either:
    - i. A separate credit decision based upon the borrower's current financial condition before each draw.
    - ii. An annual, or more frequent credit review, based upon the borrower's current financial condition to determine whether to continue the lending arrangement.

5. A commitment to make a permanent loan, where either the balance sheet or off-balance-sheet includes the construction loan. If the commitment to make the permanent loan exceeds the construction loan, treat the excess as a separate commitment and convert it to an on-balance-sheet equivalent.

## Twenty Percent Credit Conversion Factor

Trade-related contingencies are short term, self-liquidating instruments used to finance the movement of goods and collateralized by the underlying shipment. For example, a commercial letter of credit.

## Fifty Percent Credit Conversion Factor

### Include:

1. Transaction-related contingencies, including performance bonds and performance-based standby letters of credit.
2. Unused commitments with an original maturity greater than one year, including home equity lines of credit that are not in the zero percent credit conversion factor category because they are not unconditionally cancelable.
3. Revolving underwriting facilities, note issuance facilities, and similar arrangements where the customer can issue short-term debt in its own name, but where you have a legally binding commitment to either:
  - a. Purchase the obligations the customer is unable to sell by a certain date.
  - b. Advance funds to its customer if the customer is unable to sell the obligations.

### Example:

You have a \$1 million off-balance-sheet letter of credit guaranteeing the completion of a road in a residential construction project. Letters of credit that guarantee performance have a conversion factor of 50 percent. You convert the \$1 million off-balance-sheet item into a \$500,000 on-balance-sheet equivalent (\$1 million times 50 percent), and place this in the 100 percent risk-weight category on CCR506, which is the same risk-weight category as on-balance-sheet residential construction loans.

## One Hundred Percent Credit Conversion Factor

### Include:

1. Financial guarantee-type standby letters of credit. Convert the face amount to a credit-equivalent amount.
2. Assets sold with recourse:
  - a. If you sell a \$100 loan with ten percent recourse, you must convert the full \$100 – the grossed up amount – at 100 percent, except where the amount of recourse liability that you retain is less than the capital requirement for credit-risk exposure. In that situation, the low-level recourse provision limits your capital charge to a dollar-for-dollar requirement against the amount of credit-risk exposure retained. For example, in the sale of most assets with one percent recourse, the amount of liability retained is less than the capital requirement. Therefore, one percent of the assets sold would be the capital requirement. Report this low-level recourse amount on CCR375 or CCR605. No off-balance-sheet conversion is necessary.

- b. Loans serviced for others where you or your subsidiaries are liable for credit losses on the loans serviced. In general, do not consider servicing of VA loans in GNMA pools as recourse servicing; however, we reserve the right on a case-by-case basis to treat such servicing as recourse. **Note:** You should not risk weight the on-balance-sheet asset. You should convert the full outstanding balance of the loans serviced at 100 percent.
  - c. Treat the subordinated portions of senior/subordinated securities, both retained and purchased subordinated pieces, identically to assets sold with partial, first-loss recourse under 2(a) above. You generally should not risk weight the on-balance-sheet-subordinated security. You should convert the full amount of both the senior and subordinate portions of the mortgage pool security at 100 percent.
  - d. You may elect to apply the 100 percent credit conversion factor to only the retained recourse amount related to transfers of small business loans and leases of personal property, according to § 208 of the Riegle Community Development and Regulatory Improvement Act of 1994. Qualifying savings associations may apply the treatment under § 208, as implemented, to transfers on or after March 22, 1995. See § 208 of the Riegle Act and 12 CFR § 567.6(a)(2)(i)(C).
3. Forward agreements and other contingent obligations with a specified draw down are legally binding agreements to purchase assets at a specified future date. You should convert the principal amount of the assets you will purchase on the date you enter into the agreement.
4. Securities of customers where you lend such securities to others as agent and you indemnify the customer against loss.

**Example:**

You have a \$1 million off-balance-sheet, legally binding commitment to purchase FannieMae or FreddieMac MBS. Forward agreements to purchase assets at a specified date have a conversion factor of 100 percent. You convert the \$1 million off-balance-sheet item into a \$1 million on-balance-sheet equivalent, and you place it in the 20 percent risk-weight category on CCR450.

## Interest-rate and Exchange-rate Contracts

### Credit Equivalent Amount

This calculation translates interest-rate and exchange-rate contracts into an on-balance-sheet credit equivalent amount. The credit equivalent amount of interest-rate and exchange-rate contracts is the sum of: (1) current credit exposure, and (2) potential credit exposure.

The credit equivalent amount, consisting of the current exposure plus the potential credit exposure, is assigned to the appropriate risk-weight category and reported on one of the following lines:

#### 20% Risk weight

CCR435	Claims on FHLBs
CCR445	Claims on Domestic Depository Institutions
CCR450	Other (where the counter party is a Federal Reserve Bank)

#### 50% Risk weight

CCR480	Other – where the counter party is other than a domestic depository institution, a FHLBank, or a Federal Reserve Bank
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## 1. Current Credit Exposure

Current credit exposure is the replacement cost of the contract, measured in U.S. dollars, regardless of the currency specified in the contract.

**Replacement cost** is the loss that you would incur if a counterparty defaults. You measure replacement cost as the net cost of replacing the contract at the current market value. If default would result in a theoretical profit, the replacement value is zero. The replacement cost calculation incorporates changes in both interest rates and counterparty credit quality.

## 2. Potential Credit Exposure

**Potential credit exposure** means the estimated potential increase in credit exposure over the remaining life of the contract. You calculate it as follows:

### Interest-rate Contracts

Multiply the notional principal amount of the contract by either:

1. Zero percent, if the contract has a remaining maturity of one year or less.
2. One-half of one percent if the contract has a remaining maturity greater than one year.

### Exchange-rate Contracts

Multiply the notional principal amount of the contract by either:

1. One percent if the contract has a remaining maturity of one year or less.
2. Five percent if the contract has a remaining maturity greater than one year.

### Example:

You have a \$10 million notional amount interest rate swap agreement. You report the positive fair value of this derivative instrument of \$80 thousand as an asset under FASB Statement No. 133, and include it in line SC689, Other Assets. However, you do **not** include this \$80 thousand on-balance-sheet amount in assets to risk weight. Instead, you include in assets to risk weight the credit equivalent amount of this interest rate exchange agreement, which you have calculated to be \$130 thousand. You computed the \$130 thousand by adding the current credit exposure of \$80 thousand (equal to the replacement cost of the contract) to the potential credit exposure of \$50 thousand (equal to the \$10 million notional amount times 0.5%, for this contract with a remaining maturity of 2 years). You include the \$130 thousand in assets to risk weight, in the 20 percent risk-weight category on CCR435, because the counterparty is a Federal Home Loan Bank.

## Netting of Current Replacement Value under Qualifying Bilateral Netting Agreements

You may net the current replacement values of multiple rate contracts with a single counterparty under a qualifying bilateral netting agreement in accordance with the OTS' bilateral netting rule according to 12 CFR § 567.6(a)(2)(v)(B). A bilateral netting agreement is a master contract under which two parties agree to net the amounts they owe each other under rate contracts covered by the agreement to reduce their credit exposure. You may only net contracts for capital purposes under this rule if **all** of the following are true:

1. The rate contracts are between the same two parties.



2. You net only interest rate contracts and foreign exchange rate contracts for capital purposes.
3. The bilateral netting contract covering the rate contracts results in a single netted amount being payable or receivable in case of the default, insolvency, bankruptcy, or similar circumstance of either party.
4. If you are party to the bilateral netting agreement, you have legal opinions concluding that the courts and other legal authorities of relevant jurisdictions would uphold the contract.

## **CCR605: Amount of Low-Level Recourse and Residual Interests Before Risk weighting**

If you elect the "super risk weighting" approach for low-level recourse and residual interests, report on this line the amount of 1) low-level recourse and 2) residual interests reported on SI402 and SI404. However, you should reduce the amount of residual interests reported here by any amount reported on CCR133.

### **Include:**

1. The amount of recourse liability (low-level recourse amount) that you retain when it is less than the capital requirement for credit-risk exposure. Therefore, you do not convert it to an on-balance-sheet equivalent. In the sale of most assets with one percent recourse, the amount of liability retained usually is less than the capital requirement. You would report one percent of the assets sold on CCR375 or CCR605. See the instructions for the 100 percent credit conversion factor in the Conversion of Off-balance-sheet Items to On-balance-sheet Equivalents section.
2. The amount of on-balance-sheet financial instruments reported pursuant to FASB Statement No. 125 representing subordinated credit risk interests, including interests in spread accounts and asset pools. However, your low-level recourse requirement may exceed the amount of this instrument if you are subject to credit losses exceeding the amount of the instrument.

### **Do not Include:**

Credit-enhancing interest-only strips reported on SI402 that exceed 25% of your Tier 1 Capital. You must deduct the amount that exceeds 25% of Tier 1 capital on CCR 133.

## **CCR62: Risk-Weighted Assets for Low-Level Recourse and Residual Interests (CCR605 x 12.5)**

This notional risk-weighted amount is your low-level recourse and residual interests amount on CCR605 multiplied by 12.5. **Note:** This computation results in a risk-weighted asset amount that when multiplied by 8 percent results in your low-level recourse amount. By converting your low-level recourse and residual interests amount into risk-weighted assets, this method increases your total risk-based capital requirement instead of reducing your total risk-based capital like the deduction method.

The EFS software will compute this line as CCR605 multiplied by 12.5, the reciprocal of the 8 percent risk-based capital requirement.

## **CCR64: ASSETS TO RISK WEIGHT**

The EFS software will automatically compute this line as the sum of CCR420, CCR455, CCR485, CCR510, and CCR605.

Total assets subject to risk weighting are as follows:

1. Adjusted Total Assets, CCR25.
2. ALLL, CCR350 plus CCR530.
3. Assets you are required to deduct, reported on CCR370.
4. Off-balance-sheet items you are required to convert to assets to risk weight.
5. Unrealized gains on AFS equity securities reported on CCR302.
6. Less any on-balance-sheet assets reported on CCR375.

### **CCR75: Subtotal Risk-Weighted Assets**

The EFS software will compute this line as the sum of CCR40, CCR45, CCR50, CCR55, and CCR62.

### **CCR530: Excess Allowances for Loan and Lease Losses (ALLL)**

Report an amount on CCR530 only when the ALLL reported on CCR350 is less than the ALLL reported on SC283 and SC357. This could occur when the total ALLL reported on Schedule SC exceeds the regulatory capital limit of 1.25 percent of risk-weighted assets. Report on CCR530 the ALLL reported on SC283 and SC357 that is not included on CCR350. Excess ALLL may not include amounts for liabilities for credit losses on off-balance-sheet credit exposures.

### **CCR78: TOTAL RISK-WEIGHTED ASSETS**

The EFS software will compute this line as CCR75 minus CCR530.

### **CCR80: Total Risk-Based Capital Requirement**

The EFS software will compute this line as CCR78, Total Risk-Weighted Assets multiplied by eight percent. This represents the Total Risk-based Capital necessary to be deemed adequately capitalized pursuant to 12 CFR Part 565.

If you have an individual minimum capital requirement (IMCR) set by OTS that requires the maintenance of a capital level in excess of the minimum requirement, you should override the calculated amount and report your IMCR.

This amount should never be less than eight percent of CCR78.

## **CAPITAL AND PROMPT CORRECTIVE ACTION RATIOS**

The EFS software will compute the following ratios. These ratios provide you and the data user with instantaneous calculation of important capital ratios.

**CCR810: Tier 1 (Core) Capital Ratio**

The EFS software will compute this ratio as Tier 1 (core) capital divided by adjusted total assets (CCR20/CCR25), expressed as a percentage.

**CCR820: Total Risk-Based Capital Ratio**

The EFS software will compute this ratio as total risk-based capital divided by risk-weighted assets (CCR39/CCR78), expressed as a percentage.

**CCR830: Tier 1 Risk-Based Capital Ratio**

The EFS software will compute this ratio as Tier 1 (core) capital, less the deduction for low-level recourse and residual interests, divided by risk-weighted assets ((CCR20-CCR375)/CCR78), expressed as a percentage.

**CCR840: Tangible Equity Ratio**

The EFS software will compute this ratio as Tier 1 (core) capital plus cumulative perpetual preferred stock less servicing assets on nonmortgage loans divided by tangible assets less servicing assets on nonmortgage loans ([CCR20-CCR185+SC812-SC644]/[CCR25-CCR285-SC644]), expressed as a percentage.